

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-54905; File No. SR-ISE-2006-68)

December 8, 2006

Self-Regulatory Organizations; International Securities Exchange, LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Relating to Rule 2107 (Priority and Execution of Orders)

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder,² notice is hereby given that on November 24, 2006, the International Securities Exchange, LLC (“ISE” or “Exchange”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I and II below, which Items have been prepared by the Exchange. The Exchange filed the proposed rule change as a “non-controversial” rule change under Rule 19b-4(f)(6) under the Act,³ which rendered the proposal effective upon filing with the Commission. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change

The Exchange proposes to amend ISE Rule 2107 (Priority and Execution of Orders). The text of the proposed rule change is available on the Exchange’s Web site, <http://www.iseoptions.com>, at the Exchange’s Office of the Secretary, and at the Commission’s Public Reference Room.

II. Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the Exchange included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 17 CFR 240.19b-4(f)(6).

proposal. The text of these statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

A. Self-Regulatory Organization's Statement of the Purpose of, and the Statutory Basis for, the Proposed Rule Change

1. Purpose

On September 28, 2006, the Commission granted the ISE approval for its proposed adoption of trading rules related to its new electronic trading system for equities ("ISE Stock Exchange").⁴ As required by Regulation NMS under the Act, on and after February 5, 2007, the ISE Stock Exchange will not Trade-Through⁵ the Protected Quotation⁶ of another Trading Center.⁷ Accordingly, when the ISE does not have interest resident in the ISE Stock Exchange at the National Best Bid or Offer ("NBBO"), the order will be routed to the Trading Center(s) displaying a Protected Quotation that is at a superior price. If the ISE is unable to route the order to the other Trading Center(s) for any reason and no valid exception to the order protection rule under Regulation NMS⁸ exists, the order will be canceled back to the Equity EAM. The purpose of this proposed rule change is to amend ISE Rule 2107 regarding priority and execution of orders to clarify that when the ISE Stock Exchange is not at the NBBO, orders will either be routed to Protected Quotation(s) or canceled back to the Equity EAM.

⁴ See Securities Exchange Act Release No. 54528, 71 FR 58650 (October 4, 2006) (SR-ISE-2006-48).

⁵ As defined in Rule 600(b)(77) of Regulation NMS. 17 CFR 242.600(b)(77).

⁶ As defined in Rule 600(b)(58) of Regulation NMS. 17 CFR 242.600(b)(58).

⁷ As defined in Rule 600(b)(78) of Regulation NMS. 17 CFR 242.600(b)(78).

⁸ See Rule 611 of Regulation NMS. 17 CFR 242.611.

Additionally, the ISE proposes to amend the Supplementary Material to ISE Rule 2107 to specify that the ISE Stock Exchange will execute inbound intermarket sweep orders (“ISOs”)⁹ without regard to prices on other markets and to define an Equity EAM’s obligations associated with submitting ISOs to the ISE Stock Exchange, in each case prior to February 5, 2007 (the “Trading Phase Date” of Regulation NMS).¹⁰ An Equity EAM may submit an ISO only if it has simultaneously sent an ISO (or comparable order) for the full displayed size of all firm quotations that are disseminated pursuant to an effective national market system plan and are at a superior price to the ISE Stock Exchange’s best bid or offer.

2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with Section 6(b)(5) of the Act,¹¹ in that it is designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest.

B. Self-Regulatory Organization’s Statement on Burden on Competition

The Exchange believes that the proposed rule change would impose no burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act.

C. Self-Regulatory Organization’s Statement on Comments on the Proposed Rule Change Received from Members, Participants or Others

The Exchange did not solicit or receive any written comments with respect to the proposal.

⁹ As defined in Rule 600(b)(30) of Regulation NMS. 17 CFR 242.600(b)(30).

¹⁰ Telephone conference between Nancy J. Sanow, Assistant Director, Division of Market Regulation, Commission, and Laura E. Clare, Assistant General Counsel, ISE, on December 4, 2006.

¹¹ 15 U.S.C. 78f(b)(5).

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Because the proposed rule change: (i) does not significantly affect the protection of investors or the public interest; (ii) does not impose any significant burden on competition; and (iii) by its terms, does not become operative for 30 days after the date of filing, or such shorter time as the Commission may designate, if consistent with the protection of investors and the public interest, the proposed rule change has become effective pursuant to Section 19(b)(3)(A) of the Act¹² and subparagraph (f)(6) of Rule 19b-4 thereunder.¹³

As required under Rule 19b-4(f)(6)(iii),¹⁴ the Exchange provided the Commission with written notice of its intent to file the proposed rule change, along with a brief description and text of the proposed rule change, at least five business days prior to the date of the filing of the proposed rule change. The Exchange has requested that the Commission waive the 30-day operative delay. The Commission believes that waiver of the 30-day operative delay is consistent with the protection of investors and the public interest, because this filing should clarify trading processes relating to the handling of orders on the ISE Stock Exchange. For this reason, the Commission designates the proposal to be effective and operative upon filing with the Commission.¹⁵

At any time within 60 days of the filing of the proposed rule change, the Commission may summarily abrogate such rule change if it appears to the Commission that such action is

¹² 15 U.S.C. 78s(b)(3)(A).

¹³ 17 CFR 240.19b-4(f)(6).

¹⁴ 17 CFR 240.19b-4(f)(6)(iii).

¹⁵ For purposes only of waiving the 30-day operative delay of this proposal, the Commission has considered the proposed rule's impact on efficiency, competition and capital formation. 15 U.S.C. 78c(f).

